

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**

FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

0 2 — 0 1

2. STATE:

MICHIGAN

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL
SECURITY ACT (MEDICAID)

TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

February 15, 2002

5. TYPE OF PLAN MATERIAL (Check One):

☐ NEW STATE PLAN

☐ AMENDMENT TO BE CONSIDERED AS NEW PLAN

☒ AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

42 CFR 447

7. FEDERAL BUDGET IMPACT:

a. FFY 2002 \$ 7,896,600

b. FFY 2003 \$ -0-

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-B pages 2.b.3-2.b.5

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

Attachment 4.19-B page 2.b.3

10. SUBJECT OF AMENDMENT:

Creates an outpatient hospital adjustor pool for FY 02

11. GOVERNOR'S REVIEW (Check One):

☐ GOVERNOR'S OFFICE REPORTED NO COMMENT

☐ COMMENTS OF GOVERNOR'S OFFICE ENCLOSED

☐ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

☐ OTHER, AS SPECIFIED:

12. SIGNATURE OF STATE AGENCY OFFICIAL:

13. TYPED NAME:

James K. Haveman, Jr.

14. TITLE:

Director

15. DATE SUBMITTED:

1-18-02

16. RETURN TO:

Michigan Department of Community Health
Office of Federal Liaison
6th Floor Lewis Cass Building
320 South Walnut Street
Lansing, Michigan 48913

ATTENTION: Nancy Bishop

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

1/22/02

18. DATE APPROVED:

6/27/02

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

2/15/02

20. SIGNATURE OF REGIONAL OFFICIAL:

21. TYPED NAME:

Cheryl A. Harris

22. TITLE:

Associate Regional Administrator
Division of Medicaid and Children's Health

23. REMARKS:

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
State: MICHIGAN

**POLICY AND METHOD FOR ESTABLISHING PAYMENT RATES
(OTHER THAN INPATIENT HOSPITAL AND LONG TERM CARE FACILITIES)**

$$\text{Hospital's Distribution} = \frac{\text{Hospital's Costs}}{\Sigma \text{Hospital's Costs}} \times \$9,300,000$$

Title XIX = Medicaid

CC Ratio = Hospital's outpatient cost- to- charge ratio

Funds from both pools will be distributed prior to February 14, 2002. Should a hospital fail to qualify for a distribution from either pool, its share will not be redistributed.

D. FY'02 Outpatient Hospital Adjustor Pool

Section 1645 of P.A. 60 of 2001 directs the Department of Community Health (DCH) to distribute \$14,011,000 in funds to eligible Michigan hospitals in the form of an outpatient hospital adjustor for state fiscal year (SFY) 01/02.

The first pool, in the amount of \$5,604,400 will be distributed to hospitals based on each hospital's Title XIX fee-for-service outpatient hospital charges. The second pool, in the amount of \$8,406,600 will be distributed to hospitals based on each hospital's Title XIX HMO outpatient hospital charges.

To receive funds from either of the pools, a hospital must be open and operating on the date the payment is made. In order to calculate each hospital's distribution for each pool, outpatient hospital data will be drawn from hospital cost reports ending in SFY 99/00 (between October 1, 1999 and September 30, 2000). Outpatient hospital charges will be limited to those charges eligible for reimbursement under Title XIX. Allowable charges will also include Title XIX psychiatric charges. Charges will be converted to costs using each hospital's outpatient hospital cost to charge ratio. If a hospital's cost to charge ratio is greater than one, then one will be used. Costs will be inflated to a common point in time. Inflation factors will be taken from *Standard and Poor's DRI - Health Care Cost Review - Second Quarter 2001*. Hospital costs will be inflated using the inflation factor for the quarter in which the hospital's cost year ends. A hospital's distribution from a pool will be determined by dividing its adjusted costs by the adjusted costs for all eligible hospitals *times* the available funds in the pool.

Hospitals that filed more than a single cost report during the eligibility period for these pools will have their cost report data combined and annualized to allow for only twelve months of combined cost data. Hospitals that merged during the eligibility period will have their distribution payments combined. Payments will be made to the surviving hospital.

Charge data taken from hospital cost reports is subject to review and appeal at the time the cost report is filed. The hospital's outpatient hospital cost to charge ratio is subject to review at rebasing. No further appeal of either the charge data or the outpatient hospital cost to charge ratio, as part of the distribution of funds from these pools, will be allowed.

Aggregate Medicaid reimbursement to Michigan hospitals for outpatient services (including the special indigent pools) will not be allowed to exceed the federally mandated upper payment

TN No. TN 02-001
Supersedes
TN No. TN 01-011

Approval _____

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**POLICY AND METHOD FOR ESTABLISHING PAYMENT RATES
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limit for outpatient services provided to Michigan beneficiaries. To account for varying hospital year end dates, the test will be made based on data taken from hospital cost years ending during the same state fiscal year used to do the distribution (e.g. the test for 2002 will use hospital cost years ending between October 1, 1999 and September 30, 2000). If the test against the upper payment limit finds that the upper payment limit was exceeded, the size of these pools will be reduced proportionately by the amount in excess of the limit.

Inflation factors used to inflate costs to September 30, 2000 are as follows:

<u>Fiscal Year Ending</u>	<u>Inflation Factor</u>
12/31/99	1.042
3/31/00	1.030
6/30/00	1.016
9/30/00	1.000

Fee-For-Service Pool

Distributions from the fee-for-service outpatient hospital adjustor pool will be calculated as follows:

Charges are limited to outpatient hospital charges for provider types 40, 41, and 75.

Hospital Charges = Title XIX FFS outpatient hospital charges
Hospital Costs = Hospital Charges x CC Ratio x Inflation Factor

$$\text{Hospital's Distribution} = \frac{\text{Hospital's Costs}}{\sum \text{Hospitals' Costs}} \times \$5,604,400$$

Title XIX FFS = Medicaid fee-for-service
CC Ratio = Hospital's outpatient cost- to- charge ratio

Managed Care Pool

To receive funds from the managed care outpatient hospital adjustor pool, a hospital must meet by February 15, 2002, the following criteria:

- If no Medicaid HMO has been authorized by Medicaid to enroll beneficiaries in the county in which the hospital is located or in a hospital's service area within the county, the hospital will be allowed to participate in the distribution of funds from this pool.
- If only a single Medicaid HMO has been authorized by Medicaid to enroll beneficiaries in the county in which the hospital is located, the hospital must have a signed agreement with that HMO.
- If two or more Medicaid HMOs have been authorized by Medicaid to enroll beneficiaries in the county in which the hospital is located, the hospital must have a signed agreement with at least two of the HMOs.

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At a minimum, agreements must provide for appropriately authorized, medically necessary inpatient hospital, outpatient hospital, emergency and clinical care arranged by a physician with admitting privileges to the facility and credentialed by the HMO.

Distributions from the managed care outpatient hospital adjustor pool will be calculated as follows:

Charges are limited to outpatient hospital charges for provider types 40, 41, and 75.

Hospital Charges = Title XIX HMO outpatient hospital charges
Hospital Costs = Hospital Charges x CC Ratio x Inflation Factor

$$\text{Hospital's Distribution} = \frac{\text{Hospital's Costs}}{\sum \text{Hospitals' Costs}} \times \$8,406,600$$

Title XIX = Medicaid Health Maintenance Organization
CC Ratio = Hospital's outpatient cost- to- charge ratio

Distribution of funds from all pools will be made prior to September 30, 2002. Should a hospital fail to qualify for a distribution from either pool, its share will not be redistributed.

TN No. TN 02-001
Supersedes
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Approval _____

Effective Date 2/15/02